TURNBULL

MONTHLY MARKET BULLETIN
November 2012

ALL ABOUT TURNBULL

The Turnbull partnership is a proudly independent firm, headed by Johnny Turnbull, one of the most respected buying advisors in both the London and international markets. Turnbull sets the standard for the acquisition of exceptional property in Prime Central London, as well as principal destinations anywhere in the world, and acts solely for private clients. Our select team combines their resources, contacts and broad experience with unsurpassed expertise and knowledge of the market, to ensure we meet the highly personal and exacting needs of each client.

The residential market of Prime Central London is at an interesting crossroads. On the one hand London remains the strongest performing region in the UK with prices in the most prime borough rising by 12.8% over the past 12 months. Strong international demand still dominates the prime markets with investors seeking a safehold for their wealth attracted to the security and status that London still exudes. Indeed, a recent economic report by Price Waterhouse Coopers suggests that London and New York tie for top world city of opportunity. Some astonishing prices are being achieved and with properties, for example One Hyde Park, selling for over £6,000 per square foot, CBRE reports London's super-prime market to be the most expensive in the world.

On the other hand, ongoing economic and political uncertainties has increased caution among buyers and this, coupled with unattainable expectations by some vendors, has weakened the market. Furthermore, City job losses and weaker bonus expectations have both impacted domestic demand levels. CEBR recently announced that it expected City bonus payouts for 2012 to be half the level they were in 2011, 86% down on those paid in 2007-08, and will keep falling until 2015. It also expects 13,000 City jobs to be lost in 2013 and London to lose its title as the world's largest financial centre to New York with Hong Kong expected to take over by 2015.

Perhaps unsurprisingly therefore, RICS reports that 'London has witnessed a marked downshift in momentum, with 28% of respondents now reporting rising prices, down from 60% in March'. Indeed, an analysis of average £ per square foot prices paid in central London in the third quarter of 2012 shows little change on the previous quarter.

Whichever train of thought on the state of the prime London market you adhere to, it is clear that transaction levels have taken something of a hit this year. While picking up slightly in the second quarter, transactions over the course of 2012 to date have been 13% and 19% lower than the same period in 2010 and 2011 respectively. Sales of houses have been harder hit than flats, down 22% on 2011 levels.

While the lowest level for three years, sales have not, however, dipped back to the level in the years immediately following the credit crunch.

0.9%

forecast for GVA growth in London in 2012, rising to 1.8% in 2013 and 2.4% in 2014

£170 MILLION

less sales over £2m in 2012 compared to 2011 in central London (Q1 to Q3)

6,270

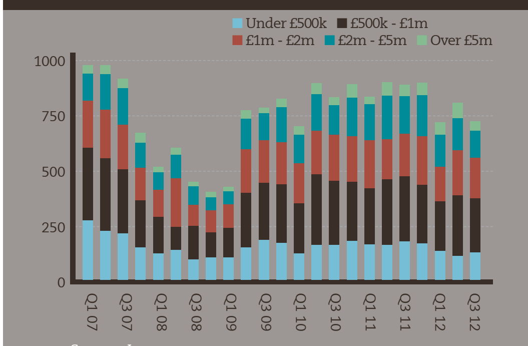
London's ultra high net worth population (net wealth at least US$30m)

£2m market

Increased stamp duty tax and ongoing uncertainty surrounding the unresolved issue of additional tax liabilities for 'non-natural' owners of higher value properties has further impacted transaction levels around the £2m threshold. Sales between £2m and £2.5m in 2012 are down 28% on 2011. Interestingly, sales of flats in the £1m-£2m bracket are up on 2011 levels, perhaps as a result of investors purchasing multiple smaller units in order to maintain a portfolio well away from the £2m threshold.

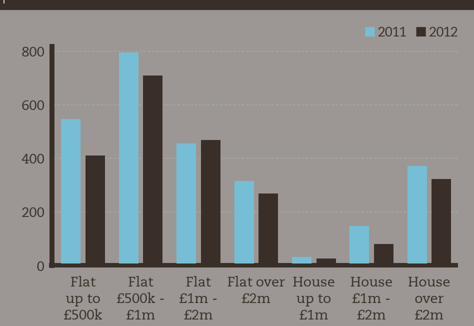
The uncertainty has also impacted the profile of available supply in the market as vendors adopt a 'wait and see strategy'. While the number of properties coming to the market in central London has risen consistently over the past four quarters, the number of newly available properties priced over £2m have fallen. Those properties which are available for more than £2m have been on the market for 25% longer than properties under £2m.

Prime central London transactions by price band



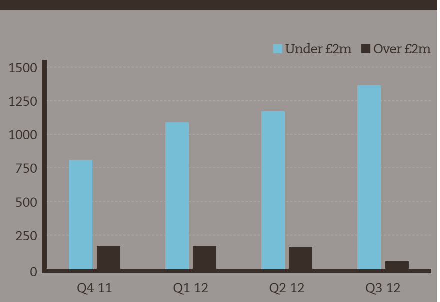
Source: Lonres

Transactions in Q1-Q3 2012 compared to 2011 by property type



Source: Lonres (chart shows the difference in transactions in Q1-Q3 2012 compared to Q1-Q3 2011

New instructions across prime central London



Source: Lonres

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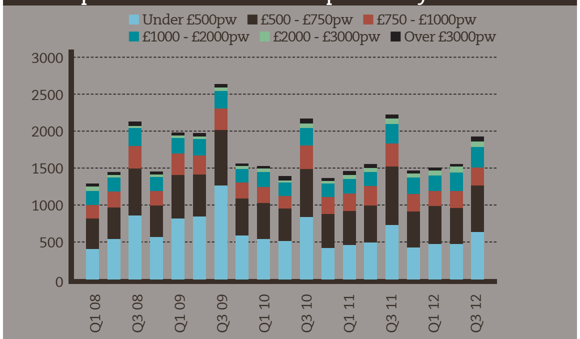
PRIME LONDON RENTAL MARKET

The downward revisions for City job numbers from the Centre of Business Research (CEBR) is not great news for the prime London rental market. By 2014 CEBR estimate that 118,000 City jobs will have been lost since 2007. Demand levels have certainly taken a hit this year as weaker confidence and the continued Eurozone uncertainties combined with the decrease in employment prospects. This has put the brakes on the rate of growth in rents that we saw over 2010 and into 2011.

That said, we have still seen some growth in rental values in 2012 in certain sectors of the Prime Central London market. Houses in particular, where supply levels are heavily constrained, have seen double digit rental growth over the past 12 months (10.5%). However, lower corporate budgets have taken their toll on demand at the top of the market (over £3,000 per week) which has seen some price falls.

The traditionally busy third quarter for the rental market, while seeing more deals completed than in previous quarters, was still quieter than in previous years. The number of tenancies agreed was 14% and 11% lower than in the preceding two years. This was perhaps a result of the early summer festivities and Olympics taking their toll while at the end of the quarter there was some pick up in activity. It remains to be seen whether this continues into the end of 2012 and into 2013.

Tenancies agreed in Prime Central London rise in third quarter but still down on previous years



Source: Lonres

LOWER ECONOMIC GROWTH FORECAST

Following news that the rate of inflation rose to 2.7% in October, up from 2.2% in September, the Bank of England Quarterly Inflation Report says that inflation is unlikely to fall towards the target of 2% before mid-2013. Furthermore, the Bank has downgraded its economic growth forecast for 2013 to 1% and warned that growth will remain below the 2008 peak level until 2015.

Outlook for sales market

With the current uncertainty surrounding the residential sales market of Prime Central London set to continue, the short term outlook for the market is more subdued than we have been used to in recent years.

An announcement on policy changes for 'offshore' owned properties over £2m is expected within the month and likely to be implemented next April which could impact on demand levels from wealthy overseas buyers. Add to this the expected job cuts in the City and it is probable that demand levels will take a hit in 2013.

As such, the significant outperformance of prices in prime parts of London which has been such a feature of the market in the last couple of years is unlikely to continue in 2013 and transaction levels are also expected to remain subdued.

However, the general consensus among commentators on the market is that the longer term outlook for the housing market at a national level is improving. Furthermore, the long term fundamentals of the London market remain strong and, as the outlook for jobs growth and the economy improves, so the housing market is expected to recover. London won't be down for long.

A number of commentators have recently released their forecasts for the market over the next few years. After a lull in 2013, Savills expect Prime Central London property prices to rise 26% by 2017. Knight Frank are similarly forecasting a flat market in 2013 and then anticipate a pick up from 2014 onwards. They expect the Prime Central London to outperform once again, averaging 6% growth per annum between 2015 and 2022.

Comparison of national indices

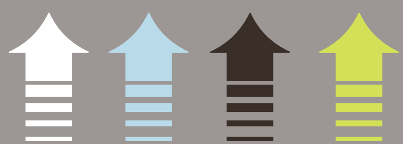
	AVG HOUSE PRICE	MONTHLY GROWTH	ANNUAL GROWTH
Nationwide	£164,153	0.6%	-0.9%
HBOS	£158,426	-0.7%	-1.7%
DCLG	£233,000	0.0%	1.7%
LandReg	£162,561	-0.3%	1.1%
Rightmove	£234,168	3.5%	1.5%

Key housing market statistics

	LATEST DATA	QUARTERLY GROWTH	ANNUAL GROWTH
M'ge Approvals	50,024	12.6%	-1.8%
Resi. trans	77,000	2.7%	1.3%
Gross mtg	£11.2bn	1.2%	-8.4%
Inflation	2.7%	n/a	n/a
Base rate	0.5%	n/a	n/a

Source: Bank of England, HMRC, ONS

Latest annual growth in average sales values



1.1% ENGLAND & WALES
5.5% LONDON
17.4% WESTMINSTER
12.8% KENSINGTON & CHELSEA

Source: Land Registry

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